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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 001731

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SUBJECT: SHIMON PERES TELLS CODEL REID TO LOOK AHEAD

Classified By: Daniel C. Kurtzer for reasons 1.4 (b,d).

11. (C) Summary: In a meeting on March 20, Codel Reid and Vice Prime Minister Shimon Peres discussed the economic future of Israel and post-disengagement Gaza, the U.S. position on Syria and Iran, the impact of the separation barrier on the lives of Palestinians, the run-up to the budget vote in the Knesset, and other issues. Peres emphasized the importance of looking ahead to the day after disengagement from Gaza and the crucial role private investment by U.S. companies can play in supporting the Palestinian economy. End Summary.

12. (U) The delegation, consisting of Senators Harry Reid, Richard Durbin, Barbara Boxer, Patty Murray, Robert Bennett, Lamar Alexander, and Ken Salazar, and Senate staff, was accompanied by Ambassador Kurtzer and poloff notetaker.

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A Whole New World  
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13. (C) Peres reflected that the Cold War divisions between North and South, East and West have been replaced by a world divided between states that fight terror and those that support it, and in which there is no room for neutrality. Economic development, he said, is the peace strategy of our time as it fosters democracy and renders military control of societies untenable. Asked how the U.S. can help facilitate the peace process, Peres said there are two things the U.S. can do: 1) keep a watchful eye on Palestinian security developments and help enable the Palestinians to become responsible for as much of their own land and security as possible, and 2) look ahead to "the day after" disengagement and encourage large-scale private U.S. investment in Gaza. Using Jordan as an example, Peres referred to the QIZ concept as "the greatest success in the Middle East" for fostering the growth of Jordan's exports to the U.S. over the last six years. He also noted the efforts of U.S. companies that have modernized the educational system in Jordan through direct investment. He said he hopes similar investment interests will emerge in Gaza.

14. (C) Turning to the future of economic development in Israel, Peres said that Israel's economic future depends on developing new patents and focus areas for research and development. Nanotechnology is a specific area of innovation where Israel should focus its efforts. Tourism, which Peres said comprises 12% of the economy, is now beginning to gain strength again following years of decline during the Intifada. In consultation with some U.S. companies, Israel is attempting to revitalize tourism in the Galilee region. Adding that some of the best beaches on the Mediterranean are located in Gaza, Peres said that helping Gaza build a tourism industry would not only be good for Gaza's economy, but would provide an incentive to end terrorism.

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On Syria and Iran  
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15. (C) Asked for his views on U.S. policy toward Syria and Iran, Peres said that because of U.S. involvement in Iraq, Syria now likely believes that the U.S. will act on its warnings. Although Syria is no longer a real military presence in the region since its economy cannot support the weapons it acquired from Russia during the Cold War, its interests in Lebanon remain strong, he said. Some 20 percent of the Syrian economy, he said, depends on the employment of Syrian workers in Lebanon. Recent stirrings of independence in Lebanon have revealed some of the economic and political shortcomings of Syrian presence there.

16. (C) Turning to Iran, Peres said that the Iranian government is "Machiavellian" in its belief that its goals justify its means. Iran, Peres said, has oil, ambition, and the most corrupt government. He said that internal change is only a matter of time, since Iran's women are sick of subjugation and its young people are looking for a better future. Unfortunately, he continued, no one can guarantee when this change will come. Peres laid out what he sees as the three options for U.S. policy toward Iran: 1) use of force, 2) political pressure, and 3) economic sanctions. Peres said that if the U.S. opts to use political pressure or economic sanctions against Iran, it will need to form a coalition with Europe. The U.S. could go along with the Europeans in using political and/or economic pressure, with the understanding that if this approach doesn't work, Europe will support the U.S. in exerting force.

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The Separation Barrier  
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17. (C) Asked how closely the separation barrier tracks with

prospects for ultimately allocating land to the Palestinians, Peres mused that in politics, one has to jump to great lengths, not heights. By jumping too high, one risks a deadly fall. The mistake at Camp David, he continued, was that the parties wanted to solve all the problems all at once. Right now Israel is making a jump out of Gaza. Next will come parts of the West Bank. Eventually, he said, the time will come for discussions on land allocation. Peres acknowledged that the barrier was conceived as a security mechanism only, but political appetite for land led to a placement that bred resentment against it. He noted that the controversy over the barrier is more limited now that its route has been changed by order of the Israeli Supreme Court. The barrier now leaves only 5.5% of the West Bank on the Israeli side, and the idea of an eventual land swap is on the table. Peres reflected that once there is no terror, the barrier will come down, but as long as terror remains, the barrier is necessary.

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The Budget  
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18. (C) Asked about the budget, Peres explained that the presence of 12 parties in the Knesset makes it very hard to get votes. Essentially, there is a different coalition for every issue. Chances are that the budget will pass, he said, although some of its supporters may end up not voting for it. The Shinui party, for example, while in favor of the budget and disengagement, will likely vote against the budget because it opposes its allocation of money to religious interests.

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The China Challenge  
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19. (C) Peres said he views China as the greatest future challenge for the U.S. China's 50-year economic plan, unexpected economic growth rate, and exponential consumption of energy and oil will challenge U.S. economic strength. Only if the U.S. stays at the forefront of technology, he added, will it have a chance to maintain its first place position in the global economy.

110. (U) Codel Reid cleared this cable.

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KURTZER